

83-9873

28 JAN 1983

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: James N. Glerum
Director of Personnel

SUBJECT: Report of Audit, Government Employees Health
Association, Inc., for the Period 1 January 1981 -
31 December 1981

1. The 1981 Government Employees Health Association (GEHA) Report of Audit contained three recommendations (incorporated from previous reports) concerning the GEHA investment portfolio. The report also noted there has been significant activity and resources directed by GEHA towards achieving a final settlement. My interim response to the audit dated 8 July 1982 indicated that activity was continuing on these issues with the intention that final decisions and recommendations would be formulated following review by the GEHA Board of Directors. The Board has now completed its review of the investment portfolio and their actions are outlined below and in the attached documentation.

2. For clarification, the three recommendations contained in the Report of Audit are restated below:

Recommendation #1: That the GEHA Board of Directors re-evaluate and document GEHA's investment objectives.

Recommendation #2: That the GEHA Board of Directors consider whether dealing through other investment broker(s) or adopting an alternate means of handling investments might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they were made.

Recommendation #3: That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

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3. The GEHA Board's decisions and directives, the rationale behind those decisions and supporting documentation are included in the attached minutes of a Board meeting held on 20 October 1982. Also included is documentation regarding follow-up action taken as a result of that meeting.

4. I believe the Board's actions have addressed and in many instances gone beyond the original scope of the audit recommendations. Regarding Recommendations #1 and #2, a new investment objective has been adopted, an intensive review of investment activity conducted and new investment strategies formulated. As documented in the attached, the Board has decided to retain BEA as the manager of the investment portfolio. At the same time, however, new guidance and direction has been provided to BEA involving reorientation of the portfolio structure. With respect to Recommendation #3, the Board of Directors, the Investment Committee, and investment consultant [] felt that establishment of such a rigid policy would be detrimental to a portfolio which must be flexible and responsive to a highly fluctuating market environment. Alternatively, other actions directed by the Board (recommendations c through g of the attached minutes) involving new investment directives, semi-annual reviews of accomplishments, and retention of [] as an investment consultant/ advisor are intended to provide the monitoring necessary to help assure achievement of stated investment objectives.

7s/ James N. Glerum

James N. Glerum

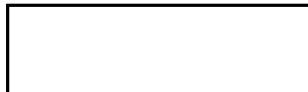
Attachment

26 October 1982

MEMORANDUM FOR THE RECORD

SUBJECT: Checks

Several years ago based on an informal suggestion by the Auditors, IB began placing a "Void after 90 days" notation on its checks. It was hoped that this would decrease the number of uncashed checks outstanding by drawing the policyholder's attention to the need to cash them. Unfortunately, this has not worked very well. Policyholders are cashing the checks after ninety days and the bank in some cases is accepting them. If they are not cashed within ninety days the bookkeeper's work is increased as she must negotiate the return of the old check and issue a new one as well as retransferring funds from one subaccount to another. Therefore, as of the next check order we will begin deleting the "Void after 90 days" notation.



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APPROVED: *

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